Schapiro Exhibit 126

Subject: Next rev
From: "Cahan, Adam" <EX:/O=VIACOM/OU=MTVUSA/CN=RECIPIENTS/CN=CAHANA>
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Cc: Date: Mon, 10 Jul 2006 01:44:02 +0000

List of attachments:
Project Beagle Review 0 3 ac.ppt

YouTube Review

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Executive Summary

- Vision
- Strategic fit
- Key risks
- Valuation
  - Business Drivers
  - Monetization model
- Upside from Viacom/YouTube combination
- Competition
- Company background

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Vision For YouTube and Viacom

- We believe YouTube would make a **transformative acquisition** for MTV Networks / Viacom that would immediately make us the leading deliverer of video online, globally.
- YouTube has an extensive **global reach**: it is a top 10 site in 8 countries, a top 20 site in 18 countries, and a top 50 site in 49 countries. Overall, Alexa ranks it 19th in the world. In the US it has reached 20M+ uniques (May NetRatings)
- **MySpace** provided the platform for young audiences as they migrated from passive consumers into creator-consumers of digital content, and dominates globally as a platform for personal web pages and rich media communication.
- YouTube is the **dominant platform** of choice for these audiences as they migrate to using **video** to express themselves.
- We have the opportunity to own this space, and become the **clear leader in community / user generated video globally.**

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Strategic Fit: Audience, Advertiser Relationships And Video Content Make Youtube A Strategic Fit For Viacom

- **Our audience** has embraced User Generated Content and this category remains unexploited by Viacom/MTVN
  - **Time spent** suggests that YouTube has garnered a significant amount of our core demographic time online with 36 minutes on average across all users
- A combined YouTube/Viacom would have scale in **advertiser relationships** in film, entertainment (17% of MTVN today), video games and other demo targeted categories including CPG.
  - With the addition of YouTube **scale** (20M+) we hope to attain a must have status with advertisers
  - Viacom can significantly **enhance CPM** based on multiplatform sales approach.
- As one of the largest owners and producers, **video** is a core competence of MTVN/ Viacom and increasingly a category online critical to our multiplatform sales.
  - Many **highly sought/ viral video** including music videos, humor and others are being sourced from UGC – e.g., "Andrew Video", "WebJunk 20" etc.

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Key Risks And Observations

- YouTube is a **utility** that people use to contribute, share and consume video. The content that is being consumed on YouTube does not follow any video consumption model and business currently in existence.
- Consumption of **"branded" content on YT is relatively low**, in most cases lower than on IFILM, which has a fraction of its audience. For example, *Pirates of the Caribbean 2* trailers consumption on YT = 250k; consumption on IFILM = 1m. Even the much-discussed SNL "Lazy Sunday" sketch and its myriad spoofs have been seen more times on IFILM than on YouTube.
  - Only four of the top 30 most watched videos of all time on YouTube are music videos, one of which is in German. There are no movie trailers in the top 30, nor are there any clips from popular TV shows.
- Assumptions about the ability to monetize YouTube must appreciate that the site today **does not *drive*** any appreciable amount of traffic to branded programming. While this may change, it is important to realize that this is not the way the site functions today, and may be inconsistent with the way people *want* to use it.
- YouTube's future success is heavily dependent on its ability to continue evolving along the lines that it is today. Any justification for this deal that depends on it **becoming something that it currently is not should be discounted.**
- YouTube's traffic is currently about **80% non-US**. The distribution of this traffic around various geographic regions needs to be analyzed to determine the ability to monetize it. *A justification for this US / international mix estimate is provided in the enclosed analysis.*
- The company has strong guidelines surrounding offensive content, which are enforced by its employees and audience alike, and the property is therefore very **advertiser-friendly**.
- **Technology company** at heart – we lack expertise in that area…

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Considerable Risks From Unclear Business Model And Non-core Viacom Competency Requirements

- **Operational requirements and technology competency**
  - Ability to hire and retain technical talent: requires significant technical talent to develop targeted advertising and search related competencies. E.g., cost per play matching video to advertisers. As a corporately owned company it will be more challenging to incent new hires
  - Ongoing investment in infrastructure: YouTube is at an early stage of infrastructure development and will require ongoing investments in infrastructure
  - Investment in innovation: As a platform, YouTube requires ongoing investment in innovation to maintain the relevance of its searches and sharing technology
- **Business model**
  - Unclear monetization: YouTube is an early revenue business with undefined a business model to fund ongoing operations. The company is likely to remain unprofitable in the near term
  - Third party content providers: ownership by a content company is likely to push other content holders to be wary of participating in the platform for fear of bias
- **Audience**
  - Limited audience lock-in: Unlike MySpace, there is less investment in personal profiles and personalities – with limited switching costs audiences are likely to migrate to other sources should the site's appeal be diminished (i.e. non-relevant advertising)
  - Fad-driven nature: Is this simply America's Funniest Home Videos?
- **Advertiser**
  - Branded advertisers have demonstrated concern over association with user generated content and may not value the impressions
- **Competition (see detailed discussion)**

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Valuation

- Abcdefghijkl

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Business model drivers

- YouTube's **traffic is fragile** with respect to attempts to monetize it through traditional "inserted" video advertising.
- Audience tolerance for **pre and post-roll video advertising will be low** compared to websites that are used predominantly for the consumption of professional programming that is not available elsewhere.
- The model we have built assumes **three revenue generation models**, two of which are already in place and are well understood, one of which is new and therefore untested.
- The proposed monetization mechanisms are:
  - **Branded Premium Advertising & Sponsorships**
  - **Cost per View / "Video Ad Sense" Model**
  - **Run Of Site / Advertising Network**

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Monetization - **Branded Premium Advertising & Sponsorships**

- Revenue will be generated from **key real estate**, and will be in the form of auctioned premium advertising and sponsorships.
- Concerns surrounding generation of significant **revenue from entertainment** advertisers (e.g. studios) include:
  - Likely lack of ability to *drive* traffic to home page and other destinations within the site,
  - Most popular and therefore valuable content – such as huge movie releases (trailers, etc.) – will likely be available freely anyway.
- **Paid Placement** – home page auction based sponsored video (i.e. one block where film studios bid for placement of their trailers)
- **Premium Content** – over time the use of ad supported premium clips/content in a separate section (i.e., Movie of the week, first looks, releases, film trailers, etc).

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Monetization - Cost per View / "Video Ad Sense" Model

- Users have so much freedom of choice for the consumption of media that marketers can no longer assume they can **"buy time"** within it.
- Advertisers are becoming obliged to offer **compelling, relevant advertising** content and services. Google's advertising model made this clear, whereby advertisers not only bid for the privilege of real estate but advertising that does not make good use of available real estate is penalized.
- We propose a revenue model for YouTube that treats **advertising and content as near-equals**, as in Google's "natural v. sponsored" search results. Cost per view paid video advertising would appear throughout the YouTube site, alongside the programming.
- Advertisers would **bid for keyword-space**, and could ultimately upload their own creative.
- Audiences would be receptive to the advertisers' content because it would never be forced upon them but offered more as a ***service*** **or as additional content** to them.
- Advertising content that doesn't **perform** (is not watched) would be automatically discounted and would ultimately disappear.

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Monetization - Run Of Site / Advertising Network

- We assume the use of **advertising network** for yield management.
  - Conservatively we estimate an RPM of Y based on network experience for US, and Z for international
  - Upside from potential for cookieing users across our network
  - Upside from registration of users in a larger network

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A Viacom/Youtube Combination Can Represent Significant Upside For Both Companies

Sources for potential differentiation for YouTube/Viacom

- Provide **users with fame** on television i.e., The crowd decides, we put it on air - best of appears weekly on Comedy Central and MTVN, provides additional incentive for users to upload, vote and promote themselves on YouTube
- **Brands**/ **editorial** fit enables us to both source **talent**, innovative **content** for consumption across platforms. We are one of the few providers willing to put edgier content on TV. Ie. User generated music video, user generated ads on television
- **Video content** – breadth and depth can power YouTube to the next level of relevance. By providing all of our clip based video in raw form – i.e. non branded editorial experience- simple search and obtain. We can push YouTube to become a more comprehensive destination and source for broader syndication
- **Promotion** – fit with our target audience and demo. We can reinforce and drive traffic/ promotion to YouTube.

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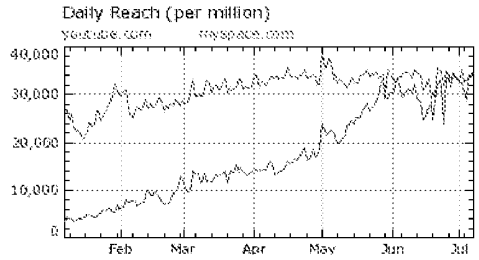
YouTube is a current leader with significant audience reach

- In the video category YouTube is a clear leader with **20M uniques** (NetRatings) (12.7M according to MMX) growing 100% month-on-month.
- By NetRatings it has reach **#20 online** (US only).
- YouTube has a massive global reach: **it is a top 10 site in 8 countries**, a top 20 site in 18 countries, and a top 50 site in 49 countries. Overall, Alexa ranks it 19th in the world.
- Relative to the competition it is experiencing **3-5X time spent** with an average of 36 minutes per unique per month (MMX).

Alexa Rankings – July 2006



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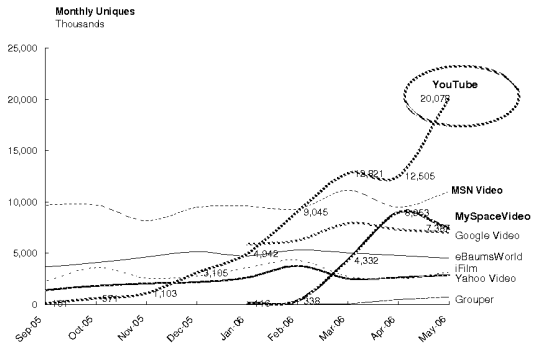

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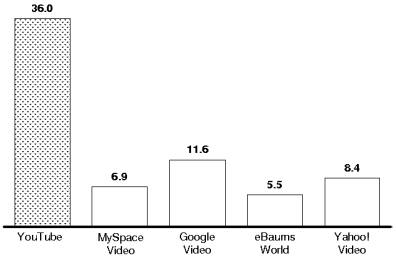
Audience Metrics - Cont

- With the nature of many-to-many video sharing, YouTube is tapping a **network effect** that will be challenging to displace
- Users continue to upload ~**70K videos per day** and invest in tagging, cataloging and sharing their videos.
- The site is expanding the breadth and depth of the content offering – with greater audience, the value of "broadcasting yourself" increases.

> *"YouTube is currently serving 70 million videos per day to six million unique users daily, up from 3 million in December, with more than 60,000 videos being uploaded per day. YouTube is serving more than 200 million page views a day and is ranked the 18th most trafficked site on the Internet, according to Alexa." – YouTube Site*

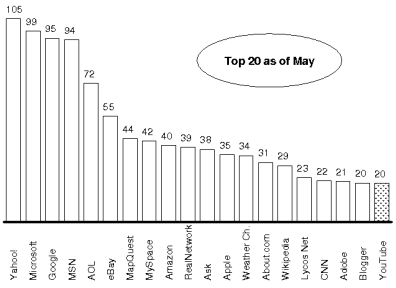
May - Average Time Spent per Unique

Minutes



NetRatings Monthly Unique Visitors

Millions



Source: Net Ratings May

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Advertisers Have Started To Migrate

- Film studio based advertising is the **#1 advertising category across** MTVN representing $517M and 17% of total dollars spent (Film $403M, HV $114M).
- As demonstrated by recent deals **(Disney, NBC, Weinstein**), this community is particularly prone to migrate dollars quickly where the target audience aggregates.
- Additional **categories of advertisers remain unclear** – i.e. CPG association with UGC has been limited

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Competition From Traditional And Non-traditional Sources Is Significant

Social Networks:

- **MySpace** has recently developed a **video sharing service** similar to YouTube. The leverage in the scale of promoting their service may detract from YouTube usage.
- MySpace may chose to **shut-down YouTube** usage which may represent up to 10% of current usage (70% of embedded, 15% of all plays are embedded)

Video Search:

- **Google Video, MSN video, Yahoo Video, AOL Video** Marketplace are all targeting searchable video content online. In particular Google Video is targeting the YouTube model of instant upload, viewing and tagging as a method for searching video content

Pure Plays/ Start-ups:

- Grouper, Revver and "hundreds" of other video sharing sites have emerged to tap this audience phenomena

Competitive risk from NOT owning

- Significant competitive threat from a **MySpace/YouTube consolidation**. Should MySpace acquire YouTube the consolidated value chain could represent a content development and distribution company that commands significant audience time in our core demographics
- YouTube remains one of the few pure-play companies with growing scale to acquire

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Company Background

- Founded February 2005
- Site motto: "Broadcast Yourself"
- Features and usage
  - Users can instantly upload, watch, tag and share videos.
  - Getting to comprehensive - search millions of videos uploaded by community members
  - Personalize the experience by subscribing to member videos, saving favorites, and creating playlists. Developing a persona on YouTube
  - Embed YouTube videos on websites using video implants or APIs
  - Users can make their posted videos public or private
  - Ability to watch and share videos from mobile phones or PDAs
- Management:
  - Chad Hurley – CEO & co-founder – prior Paypal
  - Steve Chen – CTO & co-founder – Prior Paypal
  - Sales and bus dev. mostly x-Yahoo! (Chris Maxcy)
- Investors:
  - YouTube announced its first round of funding in November 2005 for $3.5 million from venture-capital firm Sequoia Capital. In April 2006, YouTube received an additional $8 million in a second round of funding from Sequoia – investment led by Roelof Botha, former CFO of PayPal

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Sponsored video opportunity

Funny videos
Browse a huge selection now. Find exactly what you want today.

funny video clips
Ringtones at no cost Instant download on your cell phone

Satellite TV on your PC.
Controversial website exposes 100% free satellite TV on your computer

Funny Videos
Get 5 Top Deals on Funny videos

Ads by Goooooogle

Advertise on this site

Space Camp

Rate this video
2564 ratings
Please login to rate this video.

Save to Favorites
Add to Groups
Share Video
Blog Video
Flag as Inappropriate

Views: 607,943
Comments: 1330
Favorited: 1864 times
Honors: 1 show
Links to this video: show

About This Video

Added on March 12, 2006, 03:35 PM
by mykneed (8 videos)

Provided by:
Get your official Brent Simon merch here! Space Camp tshirts and more!

http://www.nerdpunk.com

From the creators of the Bittorrent Song, comes Space Camp. The new song/video from Brent Simon.

Add Brent on myspace

http://www.myspace.com/brentsimon

... (more)

Tags: fun song music brent space camp geek nerd keyboards funny emo

URL: http://www.youtube.com/watch?v=UYOoxF

All Aboard The Crazy Train
02:38
From: studio411

Just Like Eminem's Lazyeye Rap
02:41
From: rickyste

Learn the song and create a short routine

Ryan Leslie's open call for talent
02:40
From: nextselection

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